HISTORY OF BANK INDONESIA : MONETARY
Period from 1953-1959

Contents :

		Page
1.	Highlights	2
2.	Public Fund Mobilization in 1953-1959	3
3.	Foreign Exchange Policies from 1953-1959	9
4.	Focus Of Policies 1953-1959	15
5.	Strategic Steps 1953-1959	16
6.	Exchange Rate Policies in Indonesia	17
7.	Foreign Debt Policies	18

1. Highlights

Upon becoming the Unitary State of the Republic of Indonesia (NKRI) on 17 August 1950, Indonesia soon had to deal with crucial problems, among others economic issues. The arm clashes towards independence had left grim economic conditions which soon burdened this newly born republic. The drop of rupiah value and export activities accelerated the inflation rate and triggered foreign exchange crisis that continued and even climaxed in 1954. Meanwhile, the government could not help spending huge expenses for non-development purposes pertaining to the efforts to ease the tension between the central government and the regions, separatism movements by DI/TII (Radical Moslem Troops wishing to establish Islamic State) and arm clashes with the Dutch to take over West Irian. The position of foreign exchange which began to worsen from mid 1951 continued and peaked in April-May 1954. To improve the condition, the government adopted some policies focused on encouraging export activities by providing facilities to a number of exporters and imposed import restriction in quantitative manner from mid 1954 and the following years, among others through charging higher import duties. These measures managed to raise Indonesia's foreign exchange reserve from Rp 1.549 billion in April-May 1954 to Rp 2.731 billion at the end of March 1955. This surge was also attributed to certain import and export activities funded by offshore loans.

In 1957- 1958, the Indonesian economy faced more hurdles as inflation kept soaring and thus added the pressure against the country's foreign exchange reserve. Externally, this was the result of the recession taking place in the industrial nations which sparked the drop of raw material price and in turn it reduced the export earnings. Internally, the Indonesian economic condition was affected by the domestic political tension which heightened in 1957-1958, and Indonesian involvement in the confrontation against the Dutch concerning West Irian. Consequently, to make sure that the government could run effectively, Bank Indonesia had to continue recovering the spending deficit which kept rising.

At the end of 1958, several European countries pioneered by Britain, West Germany and France decided that their currencies were convertible to the United States dollar. The decision was made in conjunction with dissolving European Payments Union (EPU). These developments in Europe resulted in adverse impacts towards Indonesia which had not been directly involved in Inter European Convertibility, as part of EPU system. From then on, Indonesia directly entered the Western European foreign exchange market.

2. Public Fund Mobilization in 1953-1959

Following the independence war, Indonesia's economy which was in bad shape posed a huge burden for the Indonesians in the 1950s. Under such condition, the banking sector managed the public funds in the form of current account, time deposit and saving. In addition, this public fund mobilization in this period began to occur through share or bond transaction in the capital market or stock exchange. From 1953-1959, the public fund mobilization in general demonstrated a rising trend in line with the increasing income of some people as well as expanding banking network. However, the amount of the public funds in saving and fixed deposit throughout this period was not that significant due to two factors, namely the habit of the people who preferred to invest their funds in certain assets, and the absence of government's campaign to encourage saving. Likewise, the capital market sector amid this politically turbulent period was with relatively quiet despite few transactions.

Indonesia is a vast country as its territories stretches from Sabang, east of Sumatra to Merauke in Papua, with immense population and abundant natural resources. Indonesia required huge funds to finance its development programs. As the government owned a restricted amount of funds, the mobilization of the public funds became so vital to sustain the development programs.

This article will explain the further discuss what is meant by public funds and their conditions from 1953-1959.

Indonesia with its large territories that stretches from Sabang to Merauke, huge population and plentiful natural resources would need massive funding to develop its economy. In this way Indonesia as a state would grow and progress to catch up with the other countries. However, as the government owned restricted amount of funds only, it could not afford its development expenditures. The government had to mobilize the public funds and government saving.

The public funds were raised from saving and deposits in financial institutions comprising:

1. Current account and the people's saving which may be withdrawn at any time, either through check drawing or payment instruction, or through transfer to current account.
2. Saving, third party's saving in a bank of which may be withdrawn only based on certain terms and conditions.
3. Fixed deposit, saving from a third party in a bank may be withdrawn only within a certain period only according to the agreement.

The other funds may make up of the funds withdrawn via the issuance of commercial paper and submission of collateral.

The government's saving refers to the regular government revenues from taxes which are the surplus of the routine budget. Its amount depends on the routine expenditures and fiscal polices. Such government's saving is used to fund the government's investments.

The money market refers to a venue where short-time funds comprising commercial paper with less than 1 year term is traded and classified into:

1. The market of state treasury's commercial paper.
2. Discount paper: bank draft, promissory notes, deposit certificate with discount-based transactions.
3. Call Money Market: transaction of loans which are collectable at any time with the term of less than 7 days.
4. Prolongation: loans with less than 1 month term with stock and commercial paper guarantee.

Capital market refers to the venue where the supply and demand for long-terms funds take place, or the venue where stocks and bonds are traded. In Indonesia, the money market is known as "the stock market". The stock market's activities are distinguished into two, namely the primary market and the secondary market.

In terms of the types of commercial paper traded, the market may be classified into the bond market and share market. The bond obligation trades notes, either issued by the government and corporate entities with a period of longer than 1 year. While, the stock market trades certificates of capital participation in a company having the status of a Limited Liability Company (PT).

Public Fund Mobilization in 1953-1959

The period of 1953-1959 marked the beginning of Indonesia' economic development through the mobilization of the public funds and government's saving which were used as the capital to finance the development programs. The Indonesian economy in the early years of this period was in appalling condition despite the income growth enjoyed by some people from year to year although it slightly dropped in 1954.

The increasing public funds in the banking sector which were made up of current account, saving and time deposit in 1953 amounted to Rp2.637 million and in 1959 they amounted to Rp7.695 million, or grew at the average of 31.97%. The growth was attributed to the expansion and wide scope of the banks.

As suggested by the above graph, in 1959 the amount of the public saving was Rp 7.695 million or dropped 18.93% from 1958 (which was Rp 9,401 million). The drop was the result of Government Regulations in lieu of Act (Perpu) No. 2 and No. 3 of 1959 which temporarily froze current accounts and time deposits in the state and private banks, and plummeting rupiah. The total amount of saving and time deposit that the banks managed to collect during this period was absolutely small. The reason for this was the people's habit which was in favor of investing their funds in moveable and immovable assets. Aside from that, the public campaign to encourage public saving proved ineffective.

The government's budget from 1953-1959 had always been on the red. Such budget deficit (marked in dark red color on the marginal graph) had made the government unable to fund investment which was not inflationary in nature.

As the efforts to cover the cash shortage, the government had to rely on the borrowings from the central bank which were inflationary, on the condition that:

1. There would be no additional borrowing in 1955 as a result of the new regulation on import duties.
2. The government's debts to Bank Indonesia in 1959 were smaller than those made in the previous year due to the extra revenues received and banknote sanitation from Rp1,000 and Rp500 to Rp100 and Rp50 as the impact of the government's policy then.

The deficit spending funded with the borrowings from the central bank had spurred high inflation rate. Viewed from the price level of 19 types of foodstuff in Jakarta (index of 1953=100), the inflation rates were as follows:

Table 1
Inflation Rates from 1953-1959 (in percentage)

Year	Inflation Rates (%)
1954	6
1955	33
1956	14
1957	10
1958	46
1959	21

The stock trading activities in Indonesia had begun from the era before the independence in Jakarta (1912), Surabaya (January 1925) and Semarang (August 1925).

On 10 May 1940, to coincide with the invasion of the German troops to the Netherlands, the stock exchanges in Jakarta, Surabaya and Semarang were closed. These closures certainly upset the stock traders. On 23 December 1940, the stock exchange in Jakarta was reopened. Unfortunately, the Japanese occupation in Indonesia in 1942 made the stock exchanges in Jakarta, Semarang and Surabaya were closed again for around three and half years.

The security condition following Indonesia's independence proclaimed on 17 August 1945 remained unstable, and only two years later did the government begin to think of reopening its stock exchange again. On 3 June 1952, the stock exchange in Jakarta was officially reopened and traded:

1. The shares of the Dutch firms or plantation estates.
2. Share certificates of US companies issued by the administration office in the Netherlands.

In early 1953, the stock exchanges in Indonesia had not developed as the public in general was not aware yet of the gains that could be made from stock exchange

activities. Most people preferred to save their money by purchasing moveable or immoveable assets.

During this period, the stock exchange in Jakarta traded 3% Republic Indonesia bonds of 1950 in the nominal amount of Rp 236 million. Meanwhile, the stocks traded most actively in the stock market were the shares of Escompto Bank N.V. worth approximately Rp 4 million.

Bank Industri Niaga (BIN) issued its first tranche on 1 May 1954 in the amount of Rp 50 million. The second tranche amounted to the same value and was issued on 1 December 1954. Both tranches were issued only to the owners of rupiah saving that had been frozen who were non-Indonesian nationals.

The issuance of BIN's bonds was successful because:

1. They could be traded in both stock exchanges in Jakarta and in Amsterdam.
2. The holders of these bonds were permitted in general by the Foreign Payment Instrument Institution (LAAPLN) to transfer the interests and repayments to overseas. As a result, the holders could surely transfer their rupiah bonds to other currencies as their efforts to repay their borrowings.

Ordinary issuance by both the government and private sector in 1954 did not happen, with the exception of the share issuance of N.V. Grand Hotel Preanger worth Rp 80,000. The proceeds from the stock exchange in Jakarta in 1954 reached the nominal value of Rp200 million, mostly generated from 3% Republic of Indonesia bonds of 1950. However, the proceeds from share trading remained insignificant.

From 1955 to 1956, there was no share issuance by the government or private sector. The difficulty to buy shares from the stock exchange paved the way for the capital investment institutions to disburse their long-term loans unofficially. This reduced the demand for bonds and their sales.

In early 1956, the Indonesian stock exchange did not show any significant progress though Bank Industri Negara kept issuing 3% bonds in the amount of RP 100 million. The bonds were only available for non-Indonesian nationals.

As a consequence of the annulment of the resolutions of the Round Table Conference in accordance with Act No. 13 dated 15 February 1956, Indonesia declared it would not repay the Dutch bond borrowings and the Municipality's borrowings from the period before the war.

As these loans had been guaranteed by the Dutch Kingdom, their settlement and interest payments would be made in the Dutch currency. This also applied to the bond certificates that remained in Indonesia, except the certificates which since 3 December 1956 had been claimed by the Republic of Indonesia or one of its institutions.

As from February 1955, the entry of stocks to Indonesia was subject to import duty (known as stock TPI) of 33 1/3%. At the end of March 1957, the earnings from stock TPI which had been collected since 1955 amounted to Rp40 million. This shows that from February 1955 until April 1957, the stocks worth approximately Rp120 million

entered Indonesia the majority of which comprised 3% bond of Bank Industri Negara.

As from 1957, the Indonesian community began to use the stock exchange service to obtain long-term capital. This was made possible as BIN had placed two of its four tranches worth Rp 25 million respectively comprising bond borrowing at 5 ½% which matured in 1972 and the sales was open for the general public.

Apart from stock exchange, the government also sold bonds which offered high interest rates ranging from 12%-18%. Sometimes with additional terms that in addition to the fixed interests, the bond holders were also entitled to the dividends generated from the company's profits.

In general, however, the stock conversion rates went down and the stock exchange was not busy as in the years before. This was the result of the West Irian issues which were heating up and sparked simultaneous liquidations of the stock depots of the Dutch nationals who returned to their country and discontinuation of stock traffic between Indonesia and the Netherlands.

This inactive stock exchange was resulted from the change of the county's economic structure into a national one; making the number of firms listed in the stock exchange fall as they were forced to have new directions.

In January 1959, Bank Industri Negara issued its fourth trance, namely 5½% bonds that would mature in 1974 in the amount of Rp 250 million. Yet, until 1960, only Rp106 million worth of loan could be allocated. This loan was quite extraordinary in the sense that the bond holders did not have to keep their bonds in one of the stock custodian banks, and released the obligation of the tax officers from investigating the origins of the money used as the first participation in the each loan and to purchase the bonds.

In early 1959, again the stock exchange condition did not improve much. The value of investment in the stock exchange depleted due to the nationalization of the Dutch companies, coupled with the people's habit in placing their capital and the companies' habit in choosing capital withdrawal for their companies, namely through unofficial long-term borrowing from capital investment institutions.

As an effort to improve the conditions of the stock exchange, on 25 August 1959, the government took a monetary measure by extending consolidated loans with 3½% interest per annum. However, until 1960, this loan disbursement remained on paper, while the bond issuance and registration in the ledger of debt acknowledgement were being prepared. As a result of such monetary measure, the 6% bond emission plus gift offer in 1959 by the government which had been planned for issuance in October 1959 was postponed until early February 1960. The government hoped that this second bond issuance would develop the stock exchange trading in Indonesia.

The period from 1953-1959 was characterized with the deficit funding of the government budget with the down payment from Bank Indonesia. Meanwhile, the mobilization of the public fund remained insignificant.

The period from 1953-1959 was full of contradiction in the mobilization of the public and government funds. When the public fund mobilization was going up, the government was experiencing budget deficit. In the meantime, the stock exchange activities remained dormant as it lacked information about the gains the public could make by transacting in the capital market.

3. Foreign Exchange Policies from 1953-1959

During this parliamentary democracy period, the government adopted the controlled foreign exchange regime pursuant to the Regulation of Foreign Exchange of 1940 and Government Regulation on Foreign Exchange of 1940. Both acts basically determined the method and system to control the entire foreign exchange yields earned by the people and the government. The Institute of Foreign Exchange of the Dutch East Indies (NIDI) which later on was turned into the Foreign Payment Instrument Institution (LAAPLN). This was the government's body authorized to regulate the foreign exchange organization system then. During this period, the government adopted a number of policies in foreign exchange aimed to save the depleting foreign exchange reserve. Such policy was adopted through several regulations pertaining to foreign payment transactions, particularly in the export and import sector.

Act No. 11 of 1953, article 13, paragraph 9, declared that one of the duties of Bank Indonesia was "to manage and administer the foreign payment instruments of the Republic of Indonesia." These instruments were known as foreign exchange.

This article will discuss the foreign exchange policies adopted by the government amid the unfavorable domestic conditions. It began with the establishment of the Foreign Payment Instrument Institution (*LAAPLN) until the issuance of "Sumitomo Reform" in the month of September 1955.*

Article 13, paragraph 9 of Principle Act of the Central Bank No. 11 of 1953 stipulated that one of the duties of Bank Indonesia was to manage and administer the foreign payment instruments of the Republic of Indonesia." These instruments were known as foreign exchange.

Foreign exchange comprised foreign currencies owned by a country as international payment instrument of which their conversion rate record was available at the Central Bank.

In this period, the government adopted the foreign exchange system pursuant to Foreign Exchange Regulation of 1940 and Government Regulation on Foreign Exchange of 1940. Based on such regulations, the government adopted the controlled foreign exchange system which in principle determined the control of the entire public foreign exchange by the government.

During the Dutch Indies administration, this system was known as "the Controlled Foreign Exchange Regime". Under such system, all licenses and foreign exchange traffic were regulated by the Dutch Indies Foreign Exchange Institute (NIDI) with complicated system and procedure. Later on, this institution was replaced with the Foreign Exchange Institute for Indonesia (DIVI) and run by the board chaired by the Director for Economic Affairs.

In 1949, DIVI was again changed to the Foreign Payment Instrument Institution (LAAPLN). Before 1 July 1953, LAAPLN was under De Javasche Bank, but from 1 July 1953 its status was under Bank Indonesia.

In respect to this, all foreign exchange earned from export had to be surrendered to the agency appointed by the government which was then called the foreign exchange fund under the De Javasche Bank.

In the early establishment of Bank Indonesia on 1 July 1953, Indonesia applied foreign exchange policy with the controlled system. Under such system, foreign exchange could only be controlled and supervised by the state. Foreign exchange policy was one of the important policy components in the development of a country.

Meanwhile, the domestic conditions then were not favorable to increase the foreign exchange earning. Indonesia's foreign exchange reserve was even depleting as a result of:

1. The ups and downs of the Parliamentary Government System
2. Low economic productivity
3. General strikes in the plantation estates
4. Rampant rubber smuggling
5. Inflation resulted from the State Budget deficit
6. Increasing import

This condition made foreign exchange receipt rely only on export volume, export tax, and import duties. Whereas the export value was completely influenced by the soaring production costs. Apart from that, the production and quality of Indonesian export commodities remained below expectation.

In 1953, the efforts to stimulate export were continued with the application of the inducement system. Under this system, the government stimulated the exporters of people's yields by offering the premium of 6%-10% by way of inducement. This inducement served as the right to purchase an amount of foreign exchange that was tradable.

On the other hand, the import volume was restricted by imposing Extra Import Duty (TPI) for imported goods. These extra import duty ranged from 33 1/3 % to 200%. In April 1953, foreign exchange saving was stepped up by increasing import down payment from 40% to 75%, except for the down payment for raw material and capital goods importation which amounted to 50%. In September 1953, Indonesia changed its trading link with Hong Kong, which was later known as "the Hong Kong Barter Deal". Exporters were allowed to import goods from Hong Kong of which the value had to at least equal its export value. In addition, the Minister for the Economy granted the permit for the exporters to conduct "Extraordinary and Parallel Transaction" which alllowed the exporters to quote their prices below those of the international market in their foreign transactions.

In early 1954, the government imposed stricter rule on foreign exchange saving. In January 1954, the government restricted the amount of funds that could be transferred by the expatriate workers to 20% from their income. Besides that, foreign companies were allowed to only transfer 60% of their earnings, and the remaining 40% had to be kept in the frozen account in Bank Indonesia. Foreign exchange was not available for depreciation transfers.

The funds and earnings transferred were subject to a fee of 66 2/3%. In addition, importers of commercial paper or stocks were imposed with fee of 33 1/3%.

On the other hand, apart from saving the foreign exchange reserve, the government worked harder to earn more foreign exchange. In November 1954, the exporters had to submit bond money of 15% from their foreign exchange contract value. This measure aimed to make the exporters sell their foreign exchange to the government.

The drive to save foreign exchange went on. In July 1955, the government applied temporary import receipts, namely the certificates. The importers had to own these certificates to obtain the permit to acquire foreign exchange.

To increase the state's revenues, these certificates were sold to the importers at the price ranging from 25% to 100% from the price of goods to be imported.

In September 1955, the government issued an import policy known as "the SUMITRO REFORM" aimed to simplify and eliminate a number of import regulations which were complicated and overlapping.

Under the new regulation, importers who would be granted with import licenses were subject to Extra Import Duties ranging from 50%-400% from the import value as down payments as follows:

Category I = 50%
Category II = 100%
Category III = 200%
Category IV = 400%

Some of the provisions were eliminated, namely the ones concerning Temporary Import Receipts, Textile Import Receipts, and Special Parallel Transactions.

Within the same month, the government issued the policy on import that related to Foreign Capital Investment (PMA) and Offshore Loans.

These were not directly linked to foreign exchange earning but served as an effective means to save foreign exchange.

In order to increase foreign exchange earnings, the government developed the competence of tea and tobacco leave exporters.

In October 1995, the government enacted the provision on granting export premium ranging from 5% to 10% from the export price of weak commodities and exempting them from export duties. Meanwhile, the strong export commodities, such as copra, palm oil, tobacco, sugar and rubber were subject to export duties.

To drive export volume, in March 1956 the government raised the export premium for commodities like fiber to 25% and cotton to 15%. The tobacco export provision is based on consignment.

In August of the same year, the policy which had been adopted earlier was amended to encourage export and the government enacted the provision on Export Drive Proof (BPE) as follows:

1. BPE in the form of certificate

2. This certificate were tradable at the market price
3. Exporters would be entitled to premium ranging from 2% to 20% from FOB.
4. The Certificate Nominal Value was quoted in the currencies of the exporting countries
5. The certificate's tenor is 4 months and in the 5th month, the certificate could be refunded through the Foreign Exchange Fund. This regulation did not apply to exporters of sugar, tin, oil and other oil processed products.

The request for BPE certificates mostly came from importers and it spurred import flow. Import restriction was carried out by changing the classification of imported goods which originally comprised four categories into nine categories. Category I was exempted from TPI while categories I until IX were subject to TPI ranging from 25% until 400%. Up to mid 1957, the Export Drive Proof managed to increase the export value.

On 20 June 1957, the Monetary Board issued Decree No. 30 concerning the granting of Export Receipt Certificates to exporters with the following provisions:

1. The certificates would be valid for two months and were tradable via the banks within such tenor.
2. The certificate buyers were restricted to importers who owned import licenses or those who owned transfer permits.
3. All recipients of foreign exchange generated from export or services were subject to tax or Export Receipt Payment of 20% from the effective price of Export Receipts.

At the same time, the government unleashed the rupiah value from its official conversion rate and let its conversion rate be governed by the controlled supply and demand. For instance, only the import license holders were able to purchase foreign exchange and the foreign exchange purchase to relocate capital was forbidden. As the rupiah value had been unleashed, its conversion rate in the free market hovered from Rp31 per USD at the end of 1956 to Rp 49 by the end of 1957 and it became Rp90 in the end of 1958.

In correspond to such provision, importers were obligated to pay bond money of 20% from C&F price to the Foreign Exchange Fund. Imported goods were divided into six categories. Each category of imported goods was subject to Extra Import Duty (TPI) of 0% for category I, 20% for category II, 50% for category III, 100% for category IV, 140% for category V, and 175% for category VI.

In addition, the Export Receipt conversion rate rose quickly. In June 1956 it was recorded at 220, but in March 1958 it went up to 322. This triggered the additional demand for foreign exchange. To curb the growing demand for foreign exchange, on 19 April 1958, the Monetary Board decided the Export Receipt's maximum conversion rate was pegged at 332 and to return to the "fixed rate system".

The export value in 1957 was recorded at Rp 11.052 million but in 1958 it went down to Rp 8.612 million due to:

1. Deteriorating security and the implementation of military operations
2. Frequent barter trades in a number of areas in Indonesia
3. Transportation problems

4. Rampant smuggling in most Indonesian waters

Apart from that, Indonesia faced a political development which affected the State Foreign Exchange, namely the signing of Peaceful Agreement with the Japanese Government on 20 January 1958. This agreement marked the ending of war situation as inherited by Word War II which simultaneously arranged the payment of reparations by the Japanese Government to Indonesia.

This year the Foreign Exchange reserve was added and reached Rp1.770 milion. This amount was acquired from the write-off of trade payables that had accumulated up to Rp1,336 million. As a result the foreign exchange position at the end of June 1958 reached Rp4.464 million.

Simultaneously, the economic development became more conducive due to:

1. Before mid 1958, the government managed to liberate from the separatists a number of regions which had been important exporters of vital commodities.
2. The issue of taking over the Dutch companies by the Indonesian Government could be resolved within relatively short period of time.
3. The domestic production gradually returned to normal.

In this year, the Import Restriction Policy to save foreign exchange reserve continued with the enactment of regulation on LAAPLN No. A.80 dated 3 February 1958 regarding the Import Bond payable by Importers when applying for Import Licenses and increase of Import Bond, namely:

1. As from 3 February 1958, it increased from 20% to 100%
2. As from 31 December 1958, it increased from 100% to 133 1/3 %
3. As from 15 April 1959, it increased from 133 1/3 % to 230%

Under the foreign exchange system and policy implemented in 1959 and previous year, the government managed to increase its foreign exchange reserve to Rp 10.599 million or rose 51.69% compared to that in 1958.

Government Regulation in lieu of Act No. 4 of 1959 regarding the Elimination of Export Receipt System was effective from 25 August 1959. This system apparently disadvantaged the availability of foreign exchange in sufficient amount. Besides, the certificates obviously owned a floating rate system characteristic.

Aside from that, the government issued Government Regulation No. 42 of 1959 regarding Export and Import Duties, namely:

a. In the Import Sector

1. Import duty is determined in accordance with its C&F value
2. Extra Import Duty ranges from 0% to 200%
3. The mandatory bond was scrapped

b. Export Sector

Export duty of 20% from the sales price based on the new conversion rate.

Apart from that, the Government issued Government Regulation No. 43 of 1959 regarding the Rupiah Devaluation from Rp11.40 against USD to Rp45 against USD with the fixed rate system.

In general, therefore, the foreign exchange system and policies from 1953-1959 were characterized with the rising export value and the adoption of the policies to spur export and restrict the import value.

Despite fluctuations from year to year, the government ultimately managed to increase its foreign exchange reserve.

To sum up, the policies on foreign exchange from 1953-1959 brought some hope and were a step closer for Indonesia to achieve the national prosperity and welfare.

In general, the foreign exchange policies adopted from 1953-1959 were focused on increasing the foreign exchange flow from overseas and saving foreign exchange already earned. In reality, the government attempted to stimulate export and restrict import. As a result, in 1959 the government posted foreign exchange in the amount of Rp 10,599 million; much higher than that of 1953 which amounted to Rp764 million

4. Focus Of Policies 1953-1959

Throughout this period, Indonesia's economic and political conditions were less favorable.

Throughout this period, Indonesia's economic and political conditions were less favorable. In the economic sector, there were two major issues, namely

1. the supply side (real output) did not meet the needs as the economic development had not been properly managed,
2. the development funding remained being dominated by the Government, whereas the Government's annual revenues were always lower than its expenditures.

In the political sector, the national unity as dreamed of by the people did not happen yet as evident from ongoing revolts and security breakdown in several regions. As a result the Government's expenditures exceeded its earnings an in turn caused worsening State Budget deficit. As no solution was found to overcome the problem, the government was forced to recover the deficit with the advance from BI. To do this BI resorted to printing more banknotes. As a result, there was more money in circulation. However, as the move was not line with real output surge, this condition sparked price increase (inflation).The monetary policies were therefore aimed at reducing the inflation rate through contractive monetary policies.In respect to foreign exchange, the policies were aimed to boost export and reduce import.

5. Strategic Steps 1953-1959

The endeavors to curb inflation in this period were more attempted through the monetary sector, namely credit ceiling imposing and ban of bank lending to certain economic sectors.

The endeavors to curb inflation in this period were more attempted through the monetary sector, namely credit ceiling imposing and ban of bank lending to certain economic sectors. Meanwhile, the efforts to ensure sufficient supply of goods were not properly implemented. As a result, the monetary policies made could not be effectively executed as they lacked direction towards jacking up the real output.

As regards the foreign exchange, its outflow was tightly controlled through licensing procedure and imposing higher exchange rate than the official one. Meanwhile, export was encouraged by offering export incentives. However, this policy proved ineffective as the commodities for export were still limited.

6. Exchange Rate Policies in Indonesia

In the beginning of this period, Indonesia was inflicted with a shrinking foreign exchange reserves. This problem was coped by the introduction of Export Proof System (BE) from 20 June 1957.

In the beginning of this period, Indonesia was inflicted with a shrinking foreign exchange reserves. This problem was coped by the introduction of Export Proof System (BE) from 20 June 1957. Under this system, exporters had to obtain BE Certificates from the banks upon handing over the foreign exchange earned from the export activities. This BE was in rupiah denomination amounting to Rp 11.40 against US dollar and had to be sold in the BE exchange. BE could only be purchased by the importers who have obtained import licenses or individuals with transfer licenses. As a result, such BE index fluctuated depending on the development happening in BE exchange. In other words, the rupiah conversion rate for the foreign exchange earned from the export was somehow floated.

Because the BE index rose dramatically until March 1958 which reflected higher demand than its supply, on 18 April 1958, the BE system was revoked and Indonesia again applied the fixed exchange rate system, namely Rp 11.40 against US dollar.

Meanwhile, the application of the controlled foreign exchange system that prohibited the parties other than the import license holders and all parties from transferring their capital, had made the rupiah exchange rate in the free market surge quite fast. This condition was less favorable to the export development.

7. Foreign Debt Policies

In correspond to the outcome of the Roundtable Conference convened in the Netherlands, the total foreign debts of the Dutch East Indies administration were burdened to the Government of the Republic Indonesia. The amount reached f 1,559,7 million.

In correspond to the outcome of the Roundtable Conference convened in the Netherlands, the total foreign debts of the Dutch East Indies administration were burdened to the Government of the Republic Indonesia. The amount reached f 1,559,7 million. Apart from that, the Government of the Republic Indonesia was also responsible for the short-term payable worth f 2,859 million. In total, the payables that the Government of the Republic Indonesia had to settle reached f 4,418, 7 million or equivalent to USD 1,159,1 million. It was believed that these loans had been obtained by the Dutch East Indies Administration from, among others, the aids granted under the Marshall Aid program from the US government, and other foreign borrowings obtained from various countries.

In the later developments, in April 1958, the Japanese Government wrote off Indonesian short-term debts (trade payables) which was equivalent to Rp 1,336 million. This was a payment for the war compensation. Such write- off to the trade payables eased Indonesia's foreign debt burden as it sharply declined from Rp1.9 billion at the end of March to Rp 578 million at the end of June 1958. The move was positive to the balance of payment, and made the official foreign exchange reserves at Bank Indonesia and Foreign Exchange Fund rise significantly at the end of 1958.